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CableVision

Special Pullout Section on PPV

INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT

AUGUST 28, 1989

HOT PROGRAMMING IN LOCAL NEWS

ISRAELI CABLE HAS A U.S. SLANT

MMDS TO CABLE: CAN WE TALK?

FALLOUT FROM THE GAO REPORT

BUYERS ADJUST TO NEW REALITIES IN THE ACQUISITION MARKETPLACE

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INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT AUGUST 28, 1989

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Photo by Arnie Adler

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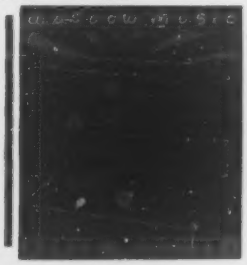

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ABP BPA

Pay-Per-Viewpoints

'Unless you're stuck with a foolish decision made early on, it's not an economical business. You must look at the bottom line, because this is a pretty transactional business.'

— John Sie, senior vice president of TCI

'It's very clear that PPV is moving at 90 miles per hour. Everyone is looking at it. There's no one I know who doesn't believe in it. Even John Sie believes event PPV is a business.'

— Hal Krisbergh, president of the Jerrold Division of General Instrument Corp.

'Our policy has been to roll out addressability at a moderate rate and not go fully forward. Operationally, our systems have been slow to implement new automation until the market demands it.'

— JoAnne Abbey, ATC director of marketing

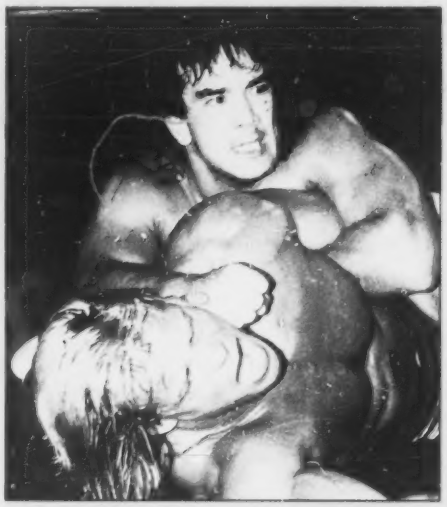
To solve the PPV puzzle, cable must play technical and financial hardball

By Fred Dawson and Craig Kuhl

What ails pay-per-view?

Depending on whom you talk to, the perspective on PPV is either that it hasn't lived up to its promise, and may never, or that it's going through a gestation period where the promise is certain to be realized—it's just a matter of a little more time.

But there's no denying the obvious. After 10 years of talk and development, PPV is still a long way from fulfilling the rosy vision that embellished franchise proposals deposited with cities across the nation in the first part of this decade. Out of 50 million cabled households, between 34 million and 38 million, depending on whose estimates you cite, are inaccessible to pay-per-view services, which is to say, they're unaddressable.



Operators could lose to home video now—and telcos later—if they don't grip PPV's potential, like these *Halloween Havoc* wrestlers

Maybe it's the name. It's hard to get excited about something with the ungainly appellation of pay-per-view. Or perhaps it's the public. The masses may not be ready, whether out of habit or deep-seated resistance, to pay enough attention to movie and event playlists to be lured into purchasing programming on a one-time basis.

Theories abound. It's the unfriendly set-top addressable box. It's Hollywood's lack of cooperation. It's the operational hassles of order taking, billing and continuous marketing. It's the low margin.

But one thing is certain. PPV's slow takeoff is not a function of public indifference to on-demand motion picture viewing in the home. With PPV hovering around the $180 million annual revenue mark, total revenues for sales and rentals of movie cassettes are expected to hit $9 billion this year, according to an estimate by the Video Software Dealer's Association, outstripping both pay TV and box office receipts.

But in some cable operators' eyes, the success of home video only points to the futility of the electronic video store agenda. To the die-hard naysayers who never did believe PPV had anything to offer, including some of the most powerful MSO executives, the present state of affairs should be the final word on the subject. It didn't pan out, and it never will. "Unless you're stuck with a foolish decision made early on," says John Sie, senior vice president at TCI. "It's not an economical business. You must look at the bottom line, because this is a pretty transactional business."

But to a swelling contingent of system managers, marketing executives, hardware vendors, programming suppliers, impresarios and—who knows?—maybe even customers, PPV has reached the point of critical mass, where a combination of many factors, each with its own gathering momentum, will push PPV to fulfillment at the leading edge of the '90s era in television entertainment, no matter what the naysayers do or don't do.

One such realist—they don't think of themselves as visionaries—is Hal Krisbergh, president of the Jerrold Division of General Instrument Corp. While Krisbergh, who oversaw the startup of

Cable Video Store in 1985, acknowledges that PPV has reached critical mass about a year later than he anticipated, the fact that the moment has arrived ensures PPV is headed for high orbit.

"It's very clear that PPV is moving at 90 miles per hour," he says. "Everyone is looking at it. It's not just another movie service. It's event programming, it's concerts, it's boxing, it's Playboy, it's the *Moscow Peace* concert. There's no one I know who doesn't believe in it. Even John Sie believes event PPV is a business."

Indeed, of late, the event phenomenon (**see story, p. 46**) has been crucial to the current of optimism, such as it is, that surrounds PPV. No greater testament to the faith in event potential to drive PPV can be found than that of the managers of Cox Cable's San Diego operation, where $20 million is being spent on 180,000 new Pioneer addressable converters against a backdrop of dwindling revenues for motion picture PPV.

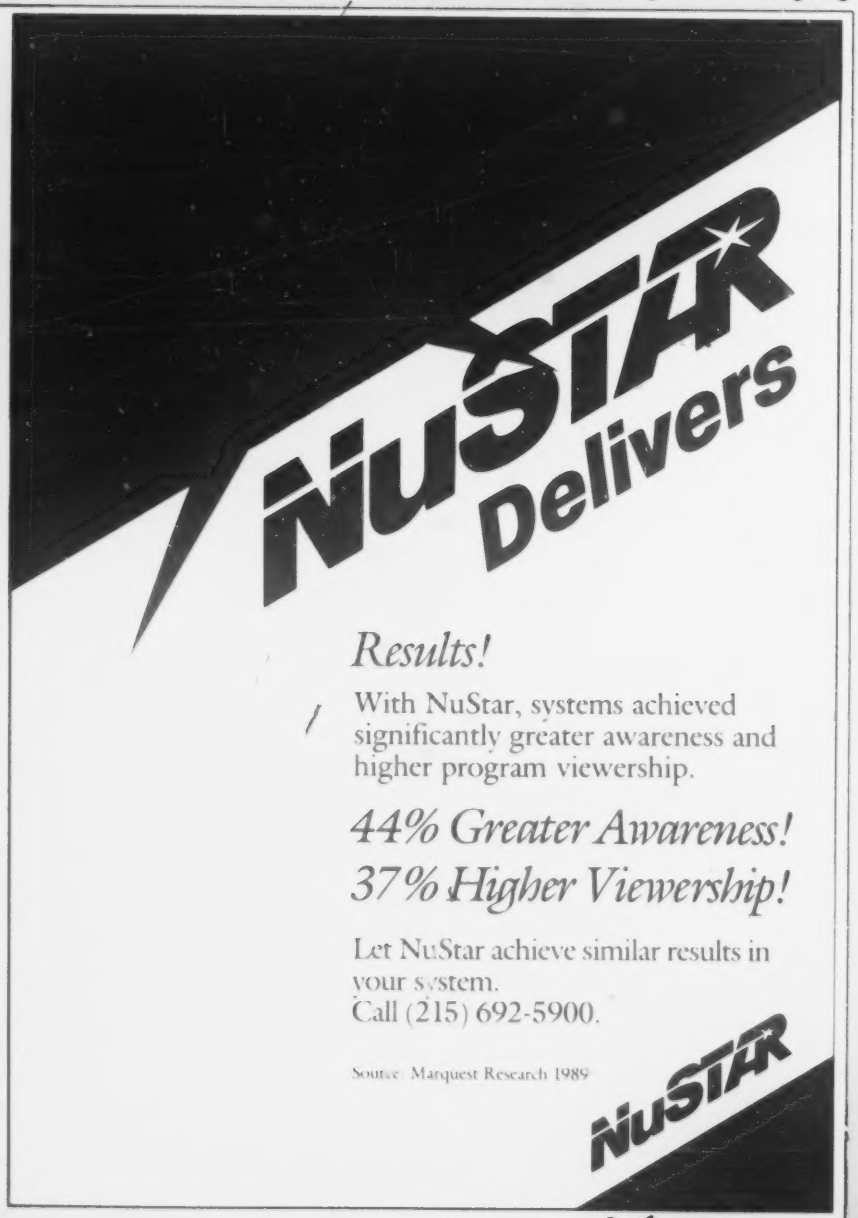
Cox, which has been in the PPV business in San Diego for most of this decade, reports overall revenues have reached $32 per year per addressable subscriber, with the ratio of PPV to pay revenues in addressable homes now at $1:$5, versus $1:$20 five years ago. But recently the ongoing PPV surge has been tied to special events, baseball and adult films, with standard motion picture fare dropping from a peak of $7.10 per addressable sub in 1987 to $4.75 this year.

In a presentation of these figures at a symposium on PPV sponsored by QVP Publishing Inc. and reported in *Variety* on Aug. 10, Cox's vice president of marketing for the San Diego system, Art Reynolds, excoriated the motion picture studios for doing a "superb job of screwing up the PPV movie business." With the various boycotts by major studios of some satellite-delivered and, even, standalone PPV services and a general lengthening of windows between home video distribution and PPV release to an average of over 50 days, Reynolds is not alone in citing Hollywood as the PPV spoiler.

"What we've found is that much of the PPV success is due to pre-sold events because people already know about them," says Susan Yee, vice president of Twin County Transvideo, an independent system serving 60,000 customers in Northampton, Pa., and boasting one of the longest-running PPV businesses in the industry. With experience going back to the early '70s, Yee can say with some certainty, "If we watch our marketing budget, PPV is a money-maker for us."

But the motion picture situation has made life much harder. "I hate to say it," says Yee, "but we're getting all reruns and there's not much sizzle left after first running. You look at movies as purely an alternative to events and you must be very cost-effective with your marketing budget for one movie."

To Marvin Jones, president and CEO of UAE Cablesystems, the movie issue is a life or death one for PPV. "The studios are careful," he says. "They don't want to



hurt videocassette rentals, and right now they give PPV somewhat of a chance. I think the window issue will make or break PPV. If we can't get the windows changed, it won't work out."

Maybe not. But there are many operators with film-based PPV up and running who, while acknowledging the studios are making life difficult, see no reason to panic. Lowell Hussey, Warner Cable's senior vice president for sales, marketing and programming, when asked why his company has gone from a PPV base of two or three systems in 1978 to offering it in virtually all systems on an addressable foundation of 800,000 subscribers, comments, "We like the business, and it makes us a lot of money."

There's no magic to Warner's approach—just one Request channel and one Viewer's Choice plus a barker channel shapes most of the PPV operations. But the business is on a fast growth curve in Hussey's estimation, having gone from about $15 per addressable sub per year two years ago to $30 today and headed for $36 next year and "the low 40s" two years from now.

Telecable, too, has made a business of PPV, no frills, straight off the satellite, selling into an addressable universe that represents 70 percent of its 580,000-subscriber base. According to Charles Kennamer, engineering manager of addressable technology, the goal from the start was to create a smooth, easy-to-run business. It took trial and error to get to a relatively hassle-free, ANI-based operation, but, today, Kennamer says, "We're happy with it. We've got it running, and now we can kick back and hope it continues to generate some revenues."

But unlike Hussey, Kennamer doesn't see major growth ahead for the two Viewer's Choice/one barker channel combo that comprises Telecable's PPV operations. "From the outset, we positioned this as a relatively small incremental business," he says. In fact, he adds, it would be a much harder choice to go into PPV if Telecable hadn't built an addressable base of Zenith converters starting in the early '80s.

Indeed, what is a hassle-free, incremental business in the operational milieu of one MSO is a conundrum of low-return, time-consuming fits and starts for another. At Continental Cablevision, Programming VP Ted Livingston views PPV as three separate businesses—boxing and wrestling, smaller events and movies—where the last two of the three are struggling. "Frankly, it's been disappointing," he comments. "We haven't gotten the movies we feel we should have. The operators tend to be enthusiastic at first, but when results don't measure up, they get discouraged. The studios are not taking steps to invest in PPV. They are being strongly influenced by video store people. We have a ways to go with PPV and need some good experiences."

Nevertheless, there is another side of the coin, as Livingston acknowledges. "It's probably fair to say that the cable industry could make a more concerted effort with PPV," he says, noting, for example, that "what TCI says carries a lot of weight, especially if they say PPV is a questionable revenue stream."

If, as JoAnne Abbey, ATC's director of marketing, contends, "the costs of addressability continue to be very high and its growth the next five years will lag significantly behind VCR growth," how much blame can cable operators lay at the feet of Hollywood for the studios' swing toward greater support for home video? Abbey points out that some market predictions foresee VCR penetration heading for 85 percent of the market over the next five years versus 35 percent for addressability, which would tell a studio that, paltry though the home video take per sale might be next to the PPV share (50 cents versus $1.50 or more), the cable potential isn't big enough in the near term to risk upsetting the home video market.

There's no better bellwether around than ATC when it comes to marking which falls off the PPV fence first, the chicken or the egg. "Our policy has been to roll out addressability at a moderate rate and not go fully forward," Abbey says. "Operationally, our systems have been slow to implement new automation until the market demands it."

According to informed sources, the second-ranking MSO will be moving even more slowly in the immediate future, owing to a decision to peg expansion of

'We keep looking at it (off-premises). The concept sounds great, but, first of all, we wonder how, given the costs involved, this is going to cut into the existing base of boxes. And there are other things that hurt off-premises, such as the placement of active electronics out in the environment, the cost of adding ports to households that never subscribe and the fact that current interdiction systems are limited to 300 MHz.'

— Vito Brugliera, marketing vice president for Zenith's Cable Products Division

'I think PPV in the last year has really started to take off. When we began these services, the people we talked to were system managers. Now we're talking to MSO managers about large-scale contracts.'

— Catherine Kinney, product manager for Ameritech's CATV Order Entry business

'The studios are careful. They don't want to hurt videocassette rentals, and right now they give PPV somewhat of a chance. I think the window issue will make or break PPV. If we can't get the windows changed, it won't work out.'

— Marcus Jones, president and CEO of UA-Columbia Cablevision

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'We like the business, and it makes us a lot of money.'

— Lowell Hussey, Warner Cable's senior vice president for sales, marketing and programming

■

'We still feel PPV will be an important revenue stream, particularly if we're reregulated. TCI won't tell us to do it or not. They'll let us make that decision and monitor its success, but they're just not ready to commit the capital until they have proof that PPV is a business.'

— Fred Vierra, president and COO of UA-Columbia Cablevision

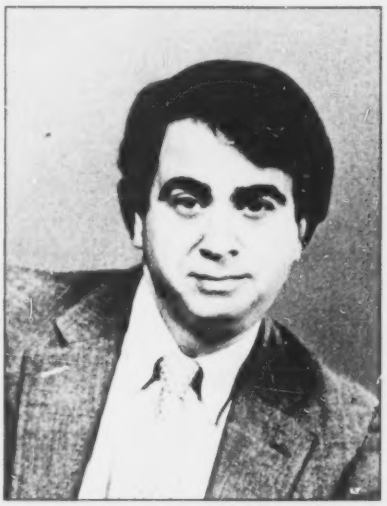
■

addressability to development of off-premises technology. "You don't have much sympathy for PPV at the top there," notes one close observer of ATC's thinking. "(Chairman and CEO Joe) Collins has an outspoken history of opposition to the concept. The position now seems to be, 'Show me a distribution approach that works, and maybe we'll go for it.'"

In a paper written for a technical session at the NCTA convention in Dallas this past May, ATC's James Chiddix, senior vice president of engineering, and David Pangrac, director of technological development, offer this insight into their company's thinking:

"The original dream of addressability encompassed automated delivery of multi-pay and pay-per-view, operating savings from reduced truck rolls, reduced converter losses and the ability to market more flexibly. In retrospect, we see a number of unanticipated problems. Addressability introduced additional layers of complexity to virtually all operational aspects of our systems, and there were varying degrees of success in coping with this. Some vintage addressable converters were unreliable, wiping out potential operating savings and angering subscribers to boot. While most addressable set-top units being delivered today have achieved acceptable reliability, these problems will be with us for some years in our universe of older converters.

"Additionally, the multi-pay environment did not require the number of channels once expected. Three or four services appear to meet the needs of most markets, and trapping is often a viable delivery option. Problems with consumer friendliness, which resulted from the introduction of scrambled signals at the same time that 'cable-ready' consumer equipment was being introduced in volume, were largely unforeseen, but have growing significance. According to research done by ATC over a large sample, over 52 percent of cable subscribers own cable-ready equipment and over 68 percent have VCRs. As an industry, we have not been particularly successful in addressing the resulting issues."



The last thing the industry should have PPV concerns over is addressability approaches, says Jerrold President Hal Krisbergh

■

But, if ATC's experience makes it wary of addressability, its sensitivity to potential trends in television distribution have kept the door ajar on the technology. "The experience of a number of operators indicates that there is additional revenue available from pay-per-view, although the magnitude remains unclear," the two engineering executives say. "In addition, our most likely long-term competitors, who will employ direct broadcast satellites and switched telco delivery systems, may well be capable of pay-per-view delivery to all of their subscribers. Thus, to the extent that pay-per-view offers things that consumers want, our moving away from addressable technology may put us at a competitive disadvantage."

In suggesting that off-premises addressability might be the answer, ATC executives are part of a growing consensus that the time has come to rethink to-the-home distribution topology, no matter what disasters such thinking has led to in the past. As noted by Chiddix and Pangrac, a multitude of off-premises systems were introduced and installed at the outset of this decade, and none survived. "These systems shared all the consumer interface drawbacks of addressable descrambling converters," they say, "and most lacked any ability to deliver broadband signals to the home for use by cable-ready TV sets and VCRs. In addition, the electronics moved outside the home were the inner workings of highly complex RF hetrodyne

HANDBOOK

Pay-Per-View Supply Chart

August	Source
The Accidental Tourist MPAA Rating: PG Running Time: 125 mins. Cast: William Hurt, Geena Davis, Kathleen Turner	Warner Bros.
After School MPAA Rating: R Running Time: 89 mins. Cast: Robert Lansing, Sam Bottoms, Renee Coleman	The Movie Store
The Beast MPAA Rating: R Running Time: 95 mins. Cast: James Woods, Sean Young	HBO
Cocoon: The Return MPAA Rating: PG Running Time: 119 mins. Cast: Don Ameche, Gwen Verdon	20th Century-Fox
Daffy Duck's Quackbusters MPAA Rating: G Running Time: 74 mins. Cast: Mel Blanc (voice)	Warner Bros.
Dangerous Liaisons MPAA Rating: R Running Time: 120 mins. Cast: Glenn Close, John Malkovich, Michelle Pfeiffer	Warner Bros.
Dirty Rotten Scoundrels MPAA Rating: PG Running Time: 110 mins. Cast: Steve Martin, Michael Caine	Orion
Halloween IV MPAA Rating: R Running Time: 88 mins. Cast: Donald Pleasence, Ellie Cornell, George Wilbur	Galaxy
Heartbreak Hotel MPAA Rating: PG-13 Running Time: 122 mins. Cast: David Keith, Tuesday Weld, Charlie Schlatter	Disney
Love At Stake MPAA Rating: R Running Time: 88 mins. Cast: Bud Cort, Kelly Preston, Patrick Cassidy, Rebecca Ferrati	HBO
Midnight Cop MPAA Rating: R Running Time: 100 mins. Cast: Michael York, Frank Stallone, Maggie Fitchild	Avalon
Parents MPAA Rating: R Running Time: 82 mins. Cast: Randy Quaid, Mary Beth Hurt, Sandy Dennis	Vestron
Pin MPAA Rating: R Running Time: 103 mins. Cast: Sconvin Mantel, Cyndy Preston, David Howlett	Prism World
Split Decisions MPAA Rating: R Running Time: 95 mins. Cast: Gene Hackman, Craig Sheffer, Jennifer Beals	New Century/Vista

September	Source
Beetlejuice MPAA Rating: PG-13 Running Time: 123 mins. Cast: Bette Midler, Barbara Hershey, John Heard	Disney
The Burbs MPAA Rating: PG Running Time: 103 mins. Cast: Tom Hanks, Carrie Fisher, Bruce Dern	Vestron
The Fly II MPAA Rating: R Running Time: 105 mins. Cast: Eric Stoltz, Daphne Zuniga	20th Century-Fox
Heathers MPAA Rating: R Running Time: 103 mins. Cast: Winona Ryder, Christian Slater	HBO
The Journey Man MPAA Rating: R Running Time: 98 mins. Cast: Kevin Kline, Dana Saunders, Harvey Keitel, Paul Sorvino	MGM/UA
Mississippi Burning MPAA Rating: R Running Time: 125 mins. Cast: Gene Hackman, Willem Dafoe, Brad Dourif, Frances McDormand	Orion
Rain Man MPAA Rating: R Running Time: 110 mins. Cast: Eric Bogosian, Lizzie Hupe, Ellen Greene	Universal
Tequila Sunrise MPAA Rating: R Running Time: 116 mins. Cast: Mel Gibson, Kurt Russell, Michelle Pfeiffer, Raul Julia	Warner Bros.
Topdrawer MPAA Rating: R Running Time: 93 mins. Cast: John Cusack, Tim Robbins, Doug McClure, Connie Stevens	Avenue
True Believer MPAA Rating: R Running Time: 108 mins. Cast: James Woods, Robert Downey Jr., Margaret Colin	Columbia
War Birds MPAA Rating: R Running Time: 88 mins. Cast: Jim Eldon, Timothy Hicks	Avalon
Who's Harry Crumb? MPAA Rating: PG-13 Running Time: 90 mins. Cast: John Candy	Tri-Star

Note: Running times are approximate.
NR indicates film not rated by MPAA.
* Unavailable at presstime.
Film information provided to *Cablevision* by distributors.

Pay-Per-View Services Profile

	LAUNCH	DELIVERY	ENCRYPTION	PROGRAMMING	ADDRESSABLE SUBSCRIBERS
Cable Video Store	April 1, 1986	Galaxy III, tr.5	VideoCipher II	Movies, how-to's, special events.	750,000
Drive-In Cinema (Graff PPV)	July 1, 1989	Spacenet II t.TBA	VideoCipher II	Action/comedy/horror films.	N.A.
Playboy On Demand	September 1, 1987	Satcom IV, tr.24	VideoCipher II	Original Playboy programs and adult motion pictures.	1,500,000
Rendezvous (Graff PPV)	July 1, 1989	Spacenet II, t.2	VideoCipher II	Adult entertainment movies & specials.	N.A.
Request Television	November 27, 1985	R-1: Satcom III-R, tr.19 R-2: Satcom III-R, tr.24	VideoCipher II	Two channels offering movies and special events	4,500,000
Tuxxedo Network	December 1, 1987	Galaxy II, tr. 10	VideoCipher II	Adult movies and special events.	500,000
Viewer's Choice	November 26, 1985	VC-1: Galaxy III, t. 21, VC-2: Galaxy III, t. 16	VideoCipher II	Two channels of movies and special events	5,500,000

next answer on the horizon. "We keep looking at it," he says. "The concept sounds great, but, first of all, we wonder how, given the costs involved, this is going to cut into the existing base of boxes. And there are other things that hurt off-premises, such as the placement of active electronics out in the environment, the cost of adding ports to households that never subscribe and the fact that current interdiction systems are limited to 300 MHz."

In Hal Krisbergh's opinion, the last thing the industry needs is to get hung up on the best approach to addressability. "The key for us is we have the basic encryption and addressable technology to employ however the customer wants it to go. It's all the same to me. What the success of addressability to date has done is provide us with the resources to develop alternative approaches, and that's what we're doing."

PPV UNIVERSE GROWTH

Year	PPV-Cable Homes
1986	10.3 million
1987	11.5 million
1988	14.0 million
1989	16.9 million
1990 (forecast)	20.3 million
1995 (forecast)	40.5 million

Source: Paul Kagan Associates

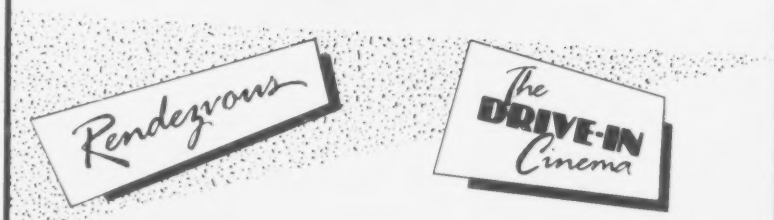
What the industry needs to realize, Krisbergh says, is that "the most valuable piece of real estate the cable operator owns is on top of the TV set." Rather than being a headache, it serves as an exclusive means to extract revenue that otherwise wouldn't be available. "One needs to defend this real estate," not trash it, he says, which means getting behind the multiport solution as the way to overcome the chief consumer complaints about the box.

To the cable operator who chooses to look a little into the future, the advice offered by Hussey, Brugliera and Krisbergh may be well worth thinking about. The telco vision of the electronic video store, with hundreds of movie titles accessable at the touch of a button, might be as blue sky today as PPV was in 1980, but technology and telecommunications services are moving ahead to the point that less visionary competitors to cable may have a shot at PPV much sooner than the telcos. In fact, it is the telcos who are helping to open such an opportunity through the rapid spread of ANI (automated number identification) services.

Bell Atlantic recently announced it was filing tariffs for CATV PPV order taking services in five states, following successful testing of such services with six cable companies. Ameritech already has tariffed PPV ordering services up and running in its Bell operating

continued on page 56

TARGETED PAY-PER-VIEW WORKS!



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System people

Earl Young, general manager of Bay Cablevision in Richmond, Calif., was named assistant vice president of Lenfest Group's marketing department. *Malcolm Taylor*, employed at Bay Cablevision since 1979, will serve as acting general manager.

Charter Cable Inc. named *Kenneth Jaskot* general manager of its Huntington, W. Va., system and regional office. Before coming to Charter, Jaskot was customer services director for a number of ATC outlets.

Cable Media has opened a St. Louis sales office for the benefit of systems in the vicinity. *James Mayfield Jr.* will be vice president and sales manager for the branch; he recently worked as senior vice president/regional marketing director for D'Arcy, Masius, Benton & Bowles.

Submissions to this section are welcome. Send your appointment information and/or photos to System People, c/o *CableVision*, 345 Park Ave. South, 9th Floor, New York, N.Y. 10010.

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territories. And most other major telcos as well as AT&T are getting into the business.

According to Catherine Kinney, product manager for Ameritech's CATV Order Entry business, the growth of the service, priced at between 16 cents and 25 cents per call, has been slow so far. But she sees signs of rapid change. "I think PPV in the last year has really started to take off," she comments. "When we began these services, the people we talked to were system managers. Now we're talking to MSO managers about large-scale contracts."

Kinney says Ameritech sees a major opportunity for ANI in the cable business, extending beyond PPV to the whole range of cable system interaction with customers. "The ability to use ANI to identify the calling party opens many possibilities," she says. Calls can be routed automatically, records for CSRs can be called up automatically, etc. In Ameritech's view, the PPV ordering process will be ever easier from an operational standpoint as the rest of the cable system's marketing and service operations are tied to automated call processing systems.

ANI isn't for everyone, of course, although some cable firms looking for low-capital intensive, low-personnel intensive approaches to PPV swear by it. "We're using ANI in 100 percent of our systems," says Telecable's Charles Kennamer. "It's working just fine, so we don't have any plans to change it." Cablevision Systems Corp., on the other hand, has tried it but doesn't cotton to it, says Al Johnson, director of technical operations. "Too often, the TV set is too far away from the phone jack, which means you have to install a jack or run extra cord through the house," he comments. Instead, the MSO, with over half of its subscriber base now addressable, relies on CSRs, ARUs and, in the case of the two-way plant in Brooklyn and Queens, Jerrold's Starview.

If Hal Krisbergh is right about the critical mass having already been reached in PPV, cable operators might soon find themselves caught up in the PPV juggernaut, no matter what judgments they've formed up to now. "The size of the addressable base right now gives the cable industry the ability to compete effectively against the broadcast networks for blockbuster events," Krisbergh says. "With a buy rate of well under 8 percent, at a price of about $15 for the event, the base is large enough to secure the top events in sports." Krisbergh's calculations, given an addressable base of 13 million converters (his estimate), add up to $15,600,000 for a $15 event taken by eight percent of the base.

No one among the top MSO executives has given more support to PPV than Fred Vierra, president and COO of UA Entertainment, parent to UAE Cablesystems. But he has to convince UAE Chairman Stewart Blair, a reputed skeptic, and the TCI hierarchy as well that the largely addressable base of the United

Showtime Event TV brought The Greatful Dead back to event PPV last month

■

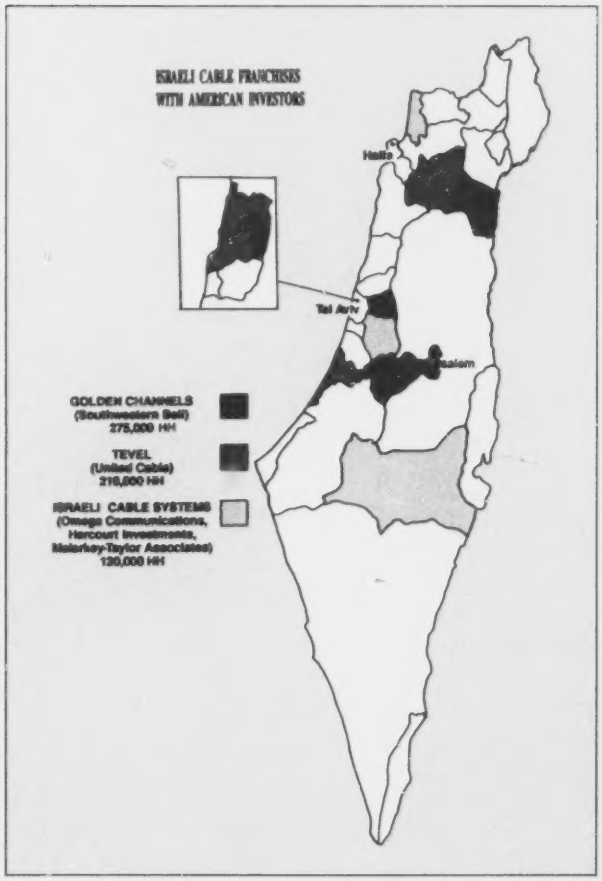
Cable group is a model on which to build the giant MSO's future.

"We still feel PPV will be an important revenue stream, particularly if we're reregulated," Vierra says. "TCI won't tell us to do it or not. They'll let us make that decision and monitor its success, but they're just not ready to commit the capital until they have proof that PPV is a business."

Given the current pace of developments in PPV, that proof may not be long in coming. ■

Cable in Israel emerges with a decided American slant

By Keith Elliott Greenberg



Israel, where broadcast television did not begin until 1968, is about to leap into the cable era in a way that blends a European approach to regulation with North American money and equipment.

Construction is about to begin on the first of 19 franchises already awarded, and the government hopes that the first subscribers will be connected by the end of this year or early next. "In time, this will help us to see what we really are: a Western country," said Meir Srebernik, director of cable and pay TV for Israel's Ministry of Communications.

There definitely is a Western feel to Israeli cable. Among the American investors in franchises already awarded, Srebernik said, are Southwestern Bell, United Cable Television, Omega Communications, Harcourt Investments and Malarkey-Taylor Associates. The later three are participaing in Israeli Cable Systems Ltd. Expected to be the major equipment suppliers are Jerrold, Magnavox, Hughes, Comm/Scope, Times Fiber Communications and other U.S. companies, he added.

Television—on the surface at least—has remained relatively unchanged since the state-run Israel Broadcasting Authority channel began in 1968. In some parts of the country an experimental commercial channel similar to England's ITV is available, as are stations from Jordan, Lebanon, Syria and Egypt.

But in the last four years, pirate cable has flourished, Srebernik said, with entrepreneurs transmitting movies throughout apartment buildings from VCRs or even programming taken from foreign satellites—which accounts for MTV in Tel Aviv bars. "There are several hundred of these systems operating illegally," Srebernik said.

Srebernik pledged that cable television will offer an alternative to state-run programming, giving viewers "the right to choose... pluralism in communication." Rabbis discussing the Talmud likely will be seen beside imams sermonizing on the Koran, rock videos, professional wrestling and self-help programs for *kibbutzniks*, residents of Israel's collective farms.

Enabling legislation creating the Israeli cable industry, passed in August 1986, gives each franchisee a monopoly in its territory, while directing the system's planning, construction, programming and operation. The law created the Cable Television Broadcasting Council consisting of eleven members, five representing government ministries and six representing the public. The council chooses winning bidders for franchises and sets policy regarding software and programming. It also has the option of determining new policies relating to operations and programming, including the number and type of signals received from foreign satellites. Additionally, the law created the Cable Television Service to supervise the systems.

coaxial cables must pass the European national specifications of the Dutch, German and French systems. Microwave links may be used in certain areas even if the bandwidth does not allow the transmission of more than eight video channels. Addressable systems or those employing standard channel converters can be offered.

"In general, the Ministry of Communications tried to find a compromise between the market-oriented systems of North America, where cost is the most important factor, and the high-technology systems found in Europe during the last 15 years," Srebernik said. "One had to take into consideration that standardization in general in Israel is European, while most of the bidders would be American or American-oriented. The situation that arose was that the Europeans claimed the technical specifications were too weak, while American entrepreneurs went berserk over the more expensive requirements for the system.

Israeli cable systems will be required to carry the Israel Broadcasting Authority channel, the state-run experimental commercial station, the Ministry of Education channel, and a local origination channel offering community access and other programming four hours daily.

Beyond that, franchisees have the option of choosing from the council's list of "welcome and agreeable" foreign signals, including Rupert Murdoch's Sky Channel, Super Channel, Italy's RAI Uno, France's Canal Plus, West Germany's ARD, CNN and the U.S. Information Agency's WorldNet. The franchisee must act to acquire the rights to receive and distribute the signals. Subject to a special license, the franchises can offer data and additional services.

A minimum of 18 and maximum of 40 channels are allowed. Each franchisee must produce 90 hours of local programming quarterly.

There will be no commercial advertising on all but the experimental commercial station before August 1991, at which time the government, on the recommendation of the council and Ministry, will render a decision on the issue.

All tariffs—whether pertaining to installation fees, basic or premium service—are determined in the bidding process. Once a bid is won, the tariffs cannot be changed for three years but the franchise can ask the Ministry of Communications for permission to raise tarrifs.

Franchisees pay an initial fee of $25,000 to the government, then an annual rate of $6,000. Royalties are zero percent of gross income during the first year of operation, three percent during the second year, four percent during the third year, and five percent for subsequent years.

At least 51 percent of each franchise must be owned by Israelis. Southwestern Bell is part owner of Golden Channels, which won the franchise for about 275,000 households in Jerusalem and other nearby cities. Israeli investors in the company include Tadiran, an electronics company, the *Yediot Achronot* newspaper and the telecommunications company Aurek Group.

United Cable Television holds a 49 percent interest in Tevel, which won the bid for 210,000 households in the Tel Aviv metropolitan area. The Israeli Discount Investments Corp. also is a partner.

Omega Communications and Harcourt Investments, both of Indianapolis, Ind., and Washington, D.C.'s Malarkey-Taylor Associates are shareholders of I.C.S., which will serve territory in Acra and Naharia in the north and Rehovot and Beersheba in the south, representing 120,000 homes.

The two major European investors are Redifusion of Zurich and Saditel-Tonna Electronics of Reimes, France. Redifusion holds shares in Gevanim, which won the bid for Rishon Le Zion and other northern areas. Saditel-Tonna is part of Cablenet, the franchisee for Haifa, Israel's third largest city.

Hughes is going to be the main supplier of microwave equipment, since the Israeli Defense Forces and other authorities utilize the frequency offered by the company's products.

Srebernik said Israel's cable systems will be built on the lessons of other countries. "Like in the technical specifications, the franchising process is a compromise between American and European methods. It mixes the American approach of decentralizing the franchising process with no enforcement of control regarding programming or detailed technical issues, and the European approach of direct government interference in the planning, construction and other technical matters. There was also a wish to adopt the Canadian experience and achievements in such areas as local origin of programs, ethnic channels and high involvement of the community in the programming process."

A source of much consternation among Israel's right wing is a requirement for programming for the Arabs. Systems operating in regions with 25 percent or more Arab inhabitants must offer at least one feature film a month, and two to four hours a week of news bulletins in Arabic. ■

Opposing camps struggle to promote their interpretation of GAO report

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By Lisa Stein

GAO REPORT — BY THE NUMBERS

Basic Rate/Number of Channels/Price Per Channel Revenue Per Sub

Cable System Size (Subscribers)	12/1/86	12/31/87	10/31/88
Very Small (1-1,000)	$11.30/15.8/$.71 $17.61	$12.65/18.2/$.70 $18.90	$13.91/19.7/$.71 $20.10
Small (1,001-3,500)	$11.20/18.9/$.59 $18.26	$12.88/21.8/$.59 $19.91	$14.16/23.6/$.60 $21.46
Medium (3,501-10,000)	$10.96/22.5/$.49 $19.03	$12.76/26.0/$.49 $20.84	$14.10/28.6/$.49 $22.32
Large (10,001-50,000)	$11.58/26.8/$.43 $21.30	$13.45/30.9/$.44 $23.35	$14.87/33.3/$.45 $25.06
Very Large (50,000 and up)	$12.31/30.9/$.40 $23.72	$13.98/33.9/$.41 $25.16	$15.17/35.4/$.43 $26.28
All Systems	$11.70/26.6/$.44 $21.58	$13.46/30.0/$.45 $23.29	$14.77/32.1/$.46 $24.68

The General Accounting Office report to Congress on cable television rates was supposed to be the study to end all studies—the one on which cable TV's legislative future in large part could be decided.

Instead, the GAO report has become something of an ink blot test: People see in it what they want and are trying to persuade others that their interpretation is the "right" one. And these interpretations are coming at a crucial time, given that Congress recessed shortly after receiving the GAO study, and many Members returned to their home districts with a copy of it in their briefcases.

Despite valiant attempts by the cable industry to characterize the study as good news, Rep. Rick Boucher, D-Va., a member of the House telecommunications subcommittee, said the report—which concludes that average monthly rates for the most popular level of basic service increased 26 percent in the two years following deregulation—provided the oomph needed to pass legislation permitting telephone companies to provide TV programming.

"We are going to pass legislation this Congress, probably next year, establishing the terms and conditions under which the telephone companies should be allowed to provide cable in their service areas," said a confident Boucher, who has introduced such a measure that also would permit local officials to regulate cable rates in those markets in which there are not competing systems.

"This bill will be enacted. The GAO report gives emphasis to and sustains arguments that the cable industry needs to be restructured. ...It shows that rates for basic cable were up more than any other good or service in this country and that is clearly unacceptable. Something has to be done. The industry either has to be reregulated or opened to competition," said Boucher in an interview with *CableVision*. He stressed that he believes competition is the way to go to keep cable—which he said the GAO report "confirms is an unregulated monopoly that has been abusive to consumers"—in line.

Boucher, who said he receives about 100 letters a month from constituents complaining about their cable TV service, said the bill has such good odds of passing because of escalating consumer outrage.

"There is a lot more public interest to do something about this than about (relaxing restrictions on the Bell operating companies contained in the Modified Final Judgment)," he said, referring to the mounting popularity of efforts in Congress to ease court limits barring the Baby Bells from providing information services and making telecommunications equipment. "There is almost no constituent interest in that, but I have gotten hundreds of complaints from people upset about cable."

Rep. Jim Cooper, D-Tenn., a colleague of Boucher's on the telecommunications subcommittee, agreed that the GAO findings were "damaging" to the cable industry "because of the dramatic increases" documented. But he denounced the study as "shallow" because, he said, it failed to take into account such crucial issues as the cost of providing cable service compared to the rates charged subscribers and the effect on monthly rates of quick turnovers of cable

systems for generally healthy profits.

Rep. Ed Markey, D-Mass., chairman of the House telecommunications subcommittee, asked the GAO to submit a new study to the panel next spring answering questions left hanging by the first survey and said the subcommittee would hold additional hearings on issues surrounding cable deregulation.

"The follow up study will show the early results are even worse,"

Rep. Rick Boucher, D-Va.

Cooper said during an interview, adding that despite its shortcomings the GAO study indicates "monopoly profits are being made not just by price gougers but by the cable industry as a whole" and that "there is a need for competition or reregulation to restrain prices." He noted, however, that Congress "will have to wait until we get sound, reliable evidence" before taking action.

The cable industry, which is trying to retain its regulatory freedom in the face of continuing criticism, insists the long-awaited GAO study showed that cable TV price hikes have been reasonable, effectively taking the wind out of the sails of reregulation efforts.

The National Cable Television Association said the increases were necessary because rates had been artificially restrained by municipalities prior to deregulation and noted further that the hikes were accompanied by a rise in the number of channels available to subscribers.

"We do not believe... that this survey depicts an industry broadly abusing its freedom. We haven't attempted a total catch up and most rate increases have been offset by more channels of service and much improved program quality," NCTA President James Mooney told the House telecommunications subcommittee during a hearing earlier this month.

To prove its point, NCTA latched onto a finding in the bulky report that subscribers' average monthly bill, including increases in basic service and a slight slide in premium service rates, had risen 14 percent in the two years following federal deregulation.

But Boucher and Cooper said Congress was not concerned about the price tag for competitive premium services like Home Box Office and Showtime. If anything, Boucher said, the dip in premium rates proved the case for letting a strong competitor into the cable ring to keep a natural check on rates and service.

"What we're concerned about is the 29 percent increase in (the lowest-priced level of) basic service, which includes local broadcast and public television signals... and is what most Americans use. We are less concerned about premium service, which exists today in a competitive environment," said Boucher. "What this shows is that competition works. It brought down the charge for premium and can bring down the charge for basic cable service."

Local government officials agreed that the GAO study indicated that the cable industry should be reregulated or competition introduced to restrain rate hikes, also homing in on the conclusion by the GAO that the average monthly tab for the most basic tier of cable service had gone up 29 percent from December 1986 to October 1988.

"This makes a devastating statement about the cable industry. It will help the cities get more regulation or competition," said Tucson, Ariz., Mayor Tom Volgy, who represented the National League of Cities in negotiations leading up to the Cable Act and now serves as chairman of the NLC's telecommunications subcommittee, which has endorsed letting the telcos in to compete with cable.

He admitted that there are holes in the GAO report—citing concerns similar to those raised by Cooper—but forecast that the GAO's followup study would be "even more damaging" to cable.

Mayors and city officials across the country believe that cable subscribers are "being abused," he said, predicting that "when they get fed up to the point where they redirect all constituent complaints to Congress, Congress will act."

Despite NCTA's claims to the contrary, GAO official John Ols told the House telecommunications subcommittee that the report's most important finding was the 29 percent rise in the lowest-priced level of basic service, which he said should serve as a signal to lawmakers that it might be necessary to reregulate

cable or provide competition to keep a lid on rates.

NCTA officials immediately tried to downplay the significance of the congressional investigator's recommendation, complaining that Ols lacked the authority to make such a claim since it was not contained in the study.

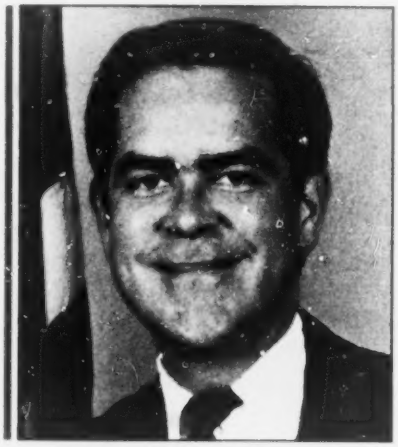
In fact, Ols, anticipating such inquiries from the subcommittee members, said he got the go-ahead of the GAO's chief counsel to make such a recommendation during the hearing. And, while some GOP members of the telecommunications panel tried to portray Ols as overstepping his authority, Boucher and key congressional aides said he did nothing wrong by making a recommendation when prodded by legislators.

Congressional and industry sources say that until the GAO releases its new study next year, the recent report no doubt will serve as a pawn in a public relations game among cable operators, local officials and the telephone industry, which says the study supports its call for repeal of a ban on telco provision of cable programming.

If media coverage is any indication, the National League of Cities and U.S. Telephone Association appear to have won the first round of the PR battle.

Many newspapers around the country that ran stories on the GAO study apparently used a wire service version, which focused on the 29 percent rise in basic rates rather than the 14 percent increase in subscribers' overall monthly bills pushed by NCTA.

The *Denver Post* ran the story, which was written by Beth Frerking, the paper's Washington bureau chief, across the top of the front page of the business section with the headline: "GAO: Reregulate Cable Industry/ Steady Rate Hikes Mean 'Bad News' for Consumers".



Rep. Jim Cooper, D-Tenn.

Frerking's story began by saying that "Congress should consider reregulating the cable television industry, because basic rates increased 29 percent during a two-year period ended last fall, a General Accounting Office official said."

The *Washington Post* ran a story on the front page of its business section leading off, "Monthly rates for basic cable television rose by more than 25 percent during the last two years, more than four times faster than inflation ..." and *The Wall Street Journal* ran a story on the GAO study headlined: "Soaring Cable-TV Prices Could Usher In Reregulation."

But when all is said and done, congressional and industry sources predict the GAO studies—especially the first one—will play second fiddle to a comprehensive review of the deregulated cable industry by the Federal Communications Commission which is due to be submitted to Congress in the fall of 1990. ■

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Satellite national services

Basic services	Affiliates	Subscribers
ACTS Satellite Network	387	9,000,000
Alternate View Network	300	4,500,000
Arts & Entertainment Network (A&E)	3,700	39,673,000
Black Entertainment Television	1,800	24,218,000
CNBC	700	13,000,000
Cable News Network	11,860	51,527,000
Cable Value Network	1,800	23,300,000
C-SPAN	3,341	46,600,000
C-SPAN II	649	18,106,660
Country Music Television	1,092	9,124,974
The Discovery Channel	5,324	44,090,000
EcoGalavision	300	1,000,000
ESPN	20,500*	52,251,000
Eternal Word Television Network	490	10,800,000
The Family Channel	8,424	45,734,000
Family Guide Network	60	4,500,000
FamilyNet	388	3,500,000
The Fashion Channel	650	10,100,000
Financial News Network	3,500	31,219,000
FNN/Score	1,600	20,000,000
Headline News	3,410	37,727,000
Home Shopping Network	1,470	16,503,770
Home Shopping Network II	372	6,618,609
The Inspirational Network	929	9,500,000
International Television Network	25	7,868,900
J.C. Penney TV Shopping Channel	119	5,100,000
KTVT	417	3,600,000
The Learning Channel	1,142	17,500,000
Lifetime	3,800	44,177,000
Mind Extension University	156	4,900,000
MTV	5,405	47,137,000
Movietime	447	13,000,000
The Nashville Network	8,318	30,499,000
National College Television	147	5,800,000
Nick At Nite	3,440	39,600,000
Nickelodeon	6,600	47,183,000
The Nostalgia Channel	387	5,700,000
Prevue Guide	400	12,000,000
QVC Network	1,000	14,100,000
RFD-TV	90	2,182,190
Silent Network	189	13,600,000
SportsChannel America**	N.A.	1,500,000
TBS Superstation	9,426	49,725,000
Telemundo***	5	100,000
TNT	2,745	30,499,000
The Travel Channel	650	11,000,000
Trinity Broadcasting Network		9,100,000
Univision***	600	509,500
USA Network	10,100	48,427,000
VH-1	2,530	32,390,000
Vision Interfaith Satellite Network	315	6,200,000
The Weather Channel	3,650	39,051,000
WGN-TV	11,415	24,900,000
WWOR-TV	2,600	12,500,000
WPIX-TV	858	9,678,474
Bonus/basic services		
American Movie Classics	1,700	20,000,000
Bravo	375	2,300,000
Pay services		
American Exxxtasy	35	27,000
Cinemax	3,650	6,600,000
The Disney Channel	5,700	4,337,300
Home Box Office	7,400	17,000,000
The Movie Channel	3,250	2,700,000
The Playboy Channel	526	470,000
Showtime	6,000	6,600,000
Audio services		
AEI Lifestyle	142	2,578,838
AEI StarTracks Vocal Hits	26	854,390
Cable Radio Network	59	2,500,000
Galatic Radio	102	3,000,000
KKGO Super Jazz	18	133,629
Moody Bible Institute	63	1,058,368
Satellite Radio Network	237	483,000
Tempo Sound	125	1,250,000
WFMT Chicago	170	1,259,804
Text services		
AP News Cable	185	2,500,000
AP Business Plus	54	1,400,000
AP News Plus	75	2,100,000
Cable SportsTracker	41	875,000
EPG	280	6,800,000
EPG Jr.	330	300,000
Genesis Storytime	39	1,550,000
Reuters NewsView	127	2,437,000
Computer services		
DBC/MarketWatch	462	9,200,000
X*Press Executive	487	14,000
X*Press X*Change	487	14,000

Non satellite-fed national services

Basic services	Affiliates	Subscribers
Cable Video Entertainment	190	18,000,000
Consumer Classified Ad Network	3	195,900
Fuji Network	3	12,000
Vector Consumer News	5	200,000
Vector Consumer Shopping Guide	9	325,000
Pay services		
Nippon Golden Network	5	13,600

Interactive services

Basic services	Affiliates	Subscribers
Video Jukebox Network	20	1,870,000

Regional services

Basic services	Affiliates	Subscribers
Arizona Sports Programming Network	N.A.	210,000
Atlanta Interfaith	7	180,000
Bay Area Religious Channel	6	113,000
Cable TV Network of New Jersey	31	1,396,451
The Ecumenical Channel	9	170,000
KBL Entertainment Network	67	1,200,000
Life Newsvision	35	50,000
Madison Square Garden Network	112	2,400,000
Meadows Racing Network	14	600,000
News 12 Long Island	4	594,000
Niagara Frontier Sports Network	13	900,000
Northwest Cable Sports Network	3	700,000
Pennarama	28	750,000
Prime Cable	9	381,938
Prime Sports Network	11	300,000
Prime Ticket	115	3,500,000
SportsChannel (Chicago)	50	1,507,270
SportsChannel (Ohio)	2	280,000
Sunshine Network	200	2,310,000
Pay services		
Home Sports Entertainment	250	1,000,000
Home Team Sports	125	1,200,000
New England Sports Network	171	317,201
Prism	87	427,000
Pro-Am Sports	173	523,000
SportsChannel (Florida)	22	650,000
SportsChannel (Los Angeles)	76	125,000
SportsChannel (New England)	154	1,028,431
SportsChannel (New York)	100	1,300,000

Note: Figures for affiliate/subscriber counts will be updated quarterly unless information is provided by the service. Send information to: CableVision, Cable Stats, 345 Park Avenue South, 9th Floor, New York, NY 10010.
N/A denotes information not available.
***Includes MMDS and SMATV systems**
****Count represents standalone affiliates/subscribers; portions of SC America are carried on Home Team Sports and the SportsChannel family of regional services.**
*****Spanish-speaking households.**

Announced services

Satellite-fed services	Expected launch
American Western Network	1st Quarter 1990
The Asia Network	5/89
Career Channel Network	10/89
CD16: The Digital Music Network	4th Quarter 1989
The Computer Channel	9/89
Digital Cable Radio	4th Quarter 1989
Digital Radio Channel	4th Quarter 1989
The Gaming Network	4th Quarter 1989
The Global Channel	1st Quarter 1990
HA TV Comedy Network (MTV)	4/90
HBO Comedy Channel	11/89
The Hot Tub Channel	2nd Quarter 1990
Interactive Game Network	3rd Quarter 1989
Kids Information Network	3rd Quarter 1989
The Landscape Channel	3rd Quarter 1989
Maximum Entertainment Network	9/89
Molino Sports News Network	11/89
Music Image Channel	11/89
Prime Network	4th Quarter 1989
QVC Network II	2/90
The Sci-Fi Channel	4th Quarter 1990
Spanish TV News Network	4th Quarter 1989
Talk Television	4th Quarter 1989

Non satellite-fed services	Expected launch
ACTV	4th Quarter 1989
Main Street	3rd Quarter 1989
On Demand/CTV TV Network	4th Quarter 1989